

New Jersey Public Broadcasting Authority

Meeting of the Audit Committee

February 25, 2013 at 11:00 a.m.

New Jersey Public Broadcasting Authority
Conference Room and by Conference Call
25 S. Stockton Street
Trenton, New Jersey 08608

MINUTES

Anthony Della Pelle, Audit Committee Chair, Presiding

Minutes of the meeting of the New Jersey Public Broadcasting Authority (“NJPBA” or “Authority”) Audit Committee (the “Committee”) held at the New Jersey Public Broadcasting Authority, 25 S. Stockton Street, Trenton, New Jersey 08608, and by Conference Call on Wednesday, February 25, 2013, at 11:08 a.m.

1. CALL TO ORDER, OPEN PUBLIC MEETINGS ACT STATEMENT AND ROLL CALL

Chair of the NJPBA Audit Committee, Mr. Anthony Della Pelle, called the meeting to order. Chair Della Pelle read the Open Public Meetings Act statement as follows: In accordance with the provisions of the Open Public Meetings Act of the State of New Jersey, notice of this meeting has been filed with the Office of the Secretary of State, has been posted on the appropriate bulletin board maintained for such purposes by the Authority, distributed by press release to two daily newspapers in New Jersey, and announced on NJTV. Notice was made in advance of this meeting.

Chair Della Pelle then requested a roll call. NJPBA Audit Committee Members present and participating at the meeting were Anthony Della Pelle, Chair (*via phone*); Christopher Mathews (*via phone*); and Guy Tassi (*arrived 11:11 a.m., via phone*). Also present and participating were Sherise Ritter, Principal, Mercadien, P.C. (*via phone*); Jill Ann Murphy, Director, Mercadien, P.C. (*via phone*); and Kavin K. Mistry, Assistant Attorney General. Also present were Brett Tanzman, Governor’s Authorities Unit (*via phone*); John Blair, NJPBA Executive Director; and Nichol Gee, NJPBA Office Manager (*taking minutes*).

After the roll call, Mr. Blair stated that he was present only to facilitate the start of the meeting, and that in accordance with Executive Order No. 122 (McGreevey 2004), he was exiting the meeting. Mr. Blair said that Ms. Gee would stay to take the minutes. Mr. Blair left the room at 11:09 a.m.

2. RESOLUTION APPROVING THE MINUTES OF THE AUGUST 29, 2012 AUDIT COMMITTEE MEETING

Chair Della Pelle asked for a motion to approve a Resolution Approving the Minutes of the August 29, 2012 Audit Committee Meeting. Mr. Mathews made a motion to approve the resolution. Chair Della Pelle seconded the motion. Chair Della Pelle asked for a roll call vote. The motion to approve the Resolution Approving the Minutes of the August 29, 2012 Audit Committee Meeting was voted upon and approved unanimously.

3. DISCUSSION OF THE NEW JERSEY PUBLIC BROADCASTING AUTHORITY FISCAL YEAR 2012 AUDIT REPORT

Chair Della Pelle asked Ms. Sherise Ritter, Principal, Mercadien, P.C. ("Mercadien") to present an overview of the New Jersey Public Broadcasting Authority Fiscal Year 2012 Audit Report. Throughout her report, Ms. Ritter referred to a presentation distributed to the Members prior to the meeting. Ms. Ritter stated that the audit was substantially complete, but the statements were not dated because Mercadien did not have the management representation letter at the time the statements were distributed. Ms. Ritter stated that by the time of the meeting, however, Mercadien had received the management letter and the statements would be dated February 20, 2013.

Mr. Mathews announced that Mr. Tassi had arrived at his office and was present on the call at 11:11 a.m.

Ms. Ritter stated that Mercadien provided two (2) unqualified or "clean" opinions according to Generally Accepted Accounting Principles ("GAAP") and Generally Accepted Government Auditing Standards ("GAGAS"). Ms. Ritter stated that the statements represented the Authority only and were not combined with other organizations, as in the past.

Ms. Ritter stated that reporting for the Corporation for Public Broadcasting ("CPB") was still underway. She said that additional research was necessary to determine how to report information from the different entities involved in NJTV to CPB. Ms. Ritter said NJPBA had received four (4) extensions from CPB for reporting. Assistant Attorney General Mistry stated that March 31, 2013 was the CPB reporting deadline.

Ms. Ritter stated that Mercadien provided a control deficiency letter regarding supervisory control of accounting actions which Ms. Murphy would review later in the meeting. Ms. Ritter stated that this deficiency was an internal control deficiency that was not at the level of a significant deficiency or material weakness, which is why it is reported in a separate letter.

Ms. Ritter stated that the original, planned scope of work and the work performed was essentially the same, however, the audit work was delayed due to a lack of supervisory review, which was the deficiency Mercadien identified, so the information had not been independently reviewed prior to the audit. Ms. Ritter stated that after she brought this to Mr. Blair's attention, Mr. Dominic Marrocco from the State of New Jersey Department of the Treasury, Office of Management and Budget ("OMB") was assigned to perform the supervisory review. Ms. Ritter stated that this level of review was necessary to maintain the independence of Mercadien.

Ms. Ritter identified three (3) significant issues discussed with management during the audit. The first was the transfer of assets and appropriation unit balances back to the State of New Jersey. Ms. Ritter said that, due to the change in operations, certain budgeted funds had lapsed and were returned to the State. The second issue was the radio sale transaction. Ms. Ritter stated that was a significant issue with regard to how the transaction needed to be reported and which entities needed to report the sale. Thirdly, Ms. Ritter stated that the establishment of the Trust Fund account with the proceeds from the radio sale for the future benefit of the Authority was another significant issue. Ms. Ritter said the proceeds of the radio sale and the Trust Fund were reported by the State, not the Authority, so while Mercadien was provided with information regarding these transactions, it was determined that these transactions were not reportable on the Authority's books. Ms. Ritter stated that there was nothing in writing with regard to how these transactions would be recorded, and so Mercadien was recommending that, in the future, when there is a significant transaction where there could be more than one way to account for it under GAAP or GAGAS, that it be documented in writing at the time of the transaction.

Ms. Ritter stated that the Authority followed all of the preferable methods for accounting under GAAP or GAGAS, and that there were no significant accounting policies or changes this year. She said the only significant transactions this year were the sale of the radio licenses and the appropriation unit balance transfers. Ms. Ritter reviewed a summary of significant accounting estimates which included depreciation expense, allowance for doubtful accounts, functional expenses, and in-kind support and expense from the State, all of which Mercadien considered to be appropriate estimates. Ms. Ritter stated that there were several audit adjustments made to the original trial balance provided to Mercadien, however these adjustments were made by NJPBA management with OMB approval. Ms. Ritter stated that there were no uncorrected misstatements.

Ms. Ritter stated that Mercadien did not have any disagreements with management. She said that Mr. Blair and Ms. Pennell worked diligently with Mercadien to work through any issues that arose, and Mercadien thanked them for their time and efforts. Ms. Ritter stated that management did not consult with any other accountants, that there were no other significant issues than what had already been discussed, and that Mercadien did not have any significant difficulties in performing the audit other than the delay.

Ms. Ritter reviewed other required communications. Concerning a letter communicating significant deficiencies and material weaknesses, having found none, Ms. Ritter stated

that there was nothing in the report accompanying the financial statements, however, there was a control deficiency noted in a separate correspondence. Ms. Ritter stated that management needed to provide written representations to Mercadien of what management provided for the audit. Ms. Murphy stated that a copy of that management representation letter would be provided when the financials were finalized.

Ms. Murphy presented an overview of the financial statements. She began by explaining the accounting of assets, liabilities and net assets. Ms. Murphy then reviewed the revenues, expenses, and changes in net assets. She stated that the line for New Jersey State appropriations included both in-kind and direct State support. Ms. Murphy said that Mr. Blair believed the use of the word “appropriations” was not accurate and that the items should be broken out into New Jersey State support direct and New Jersey State support indirect. Mr. Mathews concurred with Mr. Blair’s recommendation. Ms. Murphy said that would be changed on the final report. Ms. Murphy also said that in-kind support was recorded as both a revenue and expense. Ms. Murphy stated that the line indicating the transfer of funds to the State represented the funds that were in the Authority’s accounts at the time of the change in operations, and so those funds reverted back to the State. Chair Della Pelle asked if the transfer to the State was a one-time transfer that resulted from the change in operations. Ms. Murphy stated that it was a one-time transfer and that it would not be on the financial statements in the following year. Mr. Tassi clarified that those funds represented money that was authorized but not used. Ms. Murphy confirmed that these were funds that were appropriated to the Authority but then reverted back to the State when the Authority changed operations.

Ms. Murphy stated that the financial statements going forward would look like the statements presented at this meeting with the exception of the transfer of funds to the State. She then reviewed accounting standards updates that would affect next year’s audit. Ms. Murphy said that for the Authority, there would be language changes where the “Statement of Net Assets” would be renamed to the “Statement of Net Position” and any other terminology with “net assets” would be changed to “net position.” Ms. Murphy said that if the Authority ever had any deferred revenues, that would be reported as “unearned” rather than “deferred.”

Ms. Murphy reviewed the core values of integrity, excellence, responsibility, creativity, and respect that guide Mercadien’s work, and she said that she felt the Authority followed those same core values. Ms. Murphy commended the NJPBA staff for their work on the audit. Ms. Ritter commended Mr. Blair’s communications with Chair Della Pelle, which kept the Committee apprised of the progress and concerns raised during the audit. Chair Della Pelle concurred.

Ms. Murphy reviewed the control deficiency letter. She said that when the year started, there were a lot of beginning balances that needed to be taken off the books because of the change in operations, and Ms. Pennell was doing the work herself, but Mercadien requested that the adjustments be reviewed by OMB. Ms. Murphy said Mercadien wanted to make sure that in the future, Ms. Pennell’s records are reviewed. Ms. Murphy stated that Mercadien was comfortable with the day-to-day transactions of tower revenues and

invoicing, but that other special, larger transactions, such as grant funding or funds from the Trust Fund account, should be reviewed by OMB to ensure that transactions are recorded properly at that time rather than waiting until the audit starts. Ms. Murphy said the Authority should also document accounting principles or positions in writing with regard to how certain transactions will be recorded, such as with the radio sale, which was recorded on the State's books even though the contracts were written between the purchasing companies and the Authority. Mr. Tassi stated that OMB, and more specifically Mr. Marracco, did an outstanding job in resolving those issues and stated that he would reach out to OMB to request Mr. Marracco's continued oversight. Ms. Murphy concurred.

4. RESOLUTION OF THE AUDIT COMMITTEE OF THE NEW JERSEY PUBLIC BROADCASTING AUTHORITY AMENDING THE SCOPE OF WORK OF THE INDEPENDENT AUDITOR

RESOLUTION OF THE AUDIT COMMITTEE OF THE NEW JERSEY PUBLIC BROADCASTING AUTHORITY AMENDING THE SCOPE OF WORK OF THE INDEPENDENT AUDITOR

WHEREAS, the New Jersey Public Broadcasting Authority (the "Authority") was created pursuant to the New Jersey Public Broadcasting Authority Act of 1968, L. 1968, c. 405, as amended (the "Original Act"), including by the New Jersey Public Broadcasting System Transfer Act, L. 2010, c. 104 (the "Transfer Act," and together with the Original Act, the "Act"); and

WHEREAS, the Authority is constituted as an instrumentality of the State exercising public and essential governmental functions; and

WHEREAS, the Audit Committee of the Authority was established pursuant to Article IX, Section 2 of the By-Laws of the Authority and in accordance with the requirements of Executive Order No. 122 (McGreevey 2004)("EO 122");

WHEREAS, on June 27, 2012, upon the recommendation of the Audit Committee, the Authority approved the engagement of Mercadien, P.C. (the "Auditor") to serve as the independent auditor to the Authority for a three year term in connection with the annual audit of the Authority for the fiscal years ending June 30, 2012, June 30, 2013 and June 30, 2014, with two options to extend the engagement at the sole determination of the Authority for one (1) additional year each in connection with the annual audit of the Authority for the fiscal years ending June 30, 2015 and June 30, 2016 under the same terms and conditions as set forth in the Request for Quote for Independent Audit Services issued by the Authority on June 8, 2012 (the "RFP"); and

WHEREAS, in the course of conducting the audit of the Authority for the fiscal year ended June 30, 2012 ("Fiscal Year 2012 Audit"), the Auditor was required to assist the Authority in making a substantial amount of journal entries (the "Additional Journal

Entries”) necessitated by the change in programming and management structure of the Authority as a result of the Programming and Services Agreement dated as of July 1, 2011, entered into between the Authority and Public Media NJ, Inc. (the “PMNJ Agreement”);

WHEREAS, in order to qualify for Corporation for Public Broadcasting (“CPB”) grant funding, amongst numerous requirements, the Authority and the former Foundation for New Jersey Public Broadcasting would submit a joint audited financial statement, audited based on generally accepted accounting principles (“GAAP”);

WHEREAS, as a result of the PMNJ Agreement and the change in the Authority’s management and operating model and the absence of sufficient elements of “control,” as that term is used in GAAP, between the Authority, PMNJ and WNET, the Authority cannot submit a joint audited financial statement under GAAP to CPB;

WHEREAS, the Authority, PMNJ and WNET have worked with CPB to resolve this inability to submit a joint audited financial statement under GAAP;

WHEREAS, it has been determined that a non-GAAP special report combining the financial statements of the Authority, PMNJ and WNET would be sufficient for CPB purposes (the “Special CPB Report”);

WHEREAS, the Additional Journal Entries and the Special CPB Report (the “Additional Services”) provided by the Auditor were necessary, but beyond the scope of work requested by the Authority in the RFP and its engagement of the Auditor to provide independent auditor services to the Authority;

WHEREAS, as a result of Additional Services, the Auditor has requested an increase in its agreed upon fee for the Fiscal Year 2012 Audit as set forth in its response to the RFP and accepted by the Authority of \$4,300 for the Additional Journal Entries and \$2,405 for the Special CPB Report (collectively, the “Requested Increases”);

WHEREAS, changes in the scope of work and increases in compensation as a result of such scope of work is permitted pursuant to the RFP; and

WHEREAS, the Audit Committee has reviewed these Requested Increases from the Auditor and wishes to recommend that the Members of the Authority approve these Requested Increases.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE NEW JERSEY PUBLIC BROADCASTING AUTHORITY AS FOLLOWS:

1. The Audit Committee hereby recommends to the Authority to approve the increases requested by the Auditor, with respect to its agreed upon fee for the Auditor for the Fiscal Year 2012 Audit as set forth in the Auditor’s response to

the RFP, of \$4,300 for the Additional Journal Entries and \$2,405 for the Special CPB Report.

2. This Resolution shall take effect upon adoption in accordance with the Act.

Chair Della Pelle reviewed the changes in the scope of work addressed in this Resolution. Chair Della Pelle then requested a motion to approve a Resolution of the Audit Committee of the New Jersey Public Broadcasting Authority Amending the Scope of Work of the Independent Auditor. Mr. Mathews made a motion to approve the resolution. Mr. Tassi seconded the motion. The motion to approve the Resolution of the Audit Committee of the New Jersey Public Broadcasting Authority Amending the Scope of Work of the Independent Auditor was voted upon and approved unanimously.

5. RESOLUTION OF THE AUDIT COMMITTEE OF THE NEW JERSEY PUBLIC BROADCASTING AUTHORITY RECOMMENDING ACCEPTANCE OF THE FISCAL YEAR 2012 AUDIT REPORT

RESOLUTION OF THE AUDIT COMMITTEE OF THE NEW JERSEY PUBLIC BROADCASTING AUTHORITY RECOMMENDING ACCEPTANCE OF THE FISCAL YEAR 2012 AUDIT REPORT

WHEREAS, the New Jersey Public Broadcasting Authority (the “Authority”) was created pursuant to the New Jersey Public Broadcasting Authority Act of 1968, L. 1968, c. 405, as amended (the “Original Act”), including by the New Jersey Public Broadcasting System Transfer Act, L. 2010, c. 104 (the “Transfer Act,” and together with the Original Act, the “Act”);

WHEREAS, the Audit Committee established pursuant to Article IX, Section 1 of the By-Laws and in accordance with the requirements of Executive Order No. 122 (McGreevey 2004) (“EO 122”) has reviewed the Independent Auditor Report from the firm of Mercadien, P.C., the Independent Auditor to the Authority, for Fiscal Year 2012 (“Fiscal Year 2012 Audit Report”); and

WHEREAS, the Audit Committee recommends acceptance of the Fiscal Year 2012 Audit Report by the Members of the Authority.

NOW, THEREFORE, BE IT RESOLVED BY THE AUDIT COMMITTEE OF THE NEW JERSEY PUBLIC BROADCASTING AUTHORITY AS FOLLOWS:

1. The Audit Committee hereby recommends that the Members of the Authority accept the Fiscal Year 2012 Audit Report from the firm of Mercadien, P.C., the Independent Auditor to the Authority.

2. This resolution shall take effect immediately in accordance with the Act.

Chair Della Pelle requested a motion to approve a Resolution of the Audit Committee of the New Jersey Public Broadcasting Authority Recommending Acceptance of the Fiscal Year 2012 Audit Report. Mr. Tassi made a motion to approve the resolution. Mr. Mathews seconded the motion. The motion to approve the Resolution of the Audit Committee of the New Jersey Public Broadcasting Authority Recommending Acceptance of the Fiscal Year 2012 Audit Report was voted upon and approved unanimously.

6. OTHER BUSINESS (*if any*)

Chair Della Pelle asked if there was any other business the Audit Committee needed to discuss. The Audit Committee Members demurred.

7. ADJOURNMENT

Chair Della Pelle thanked everyone for their participation and asked for a motion to adjourn. Mr. Mathews made a motion to adjourn the meeting. Mr. Tassi seconded the motion. The motion was voted upon and approved unanimously. The meeting was adjourned at 11:38 a.m.